



Health Services
LOS ANGELES COUNTY

November 7, 2006

**Los Angeles County
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TO: Each Supervisor

FROM: Bruce A. Chernof, M.D. 
Director and Chief Medical Officer

**SUBJECT: PEDUS BUILDING SERVICES CONTRACT COST OF
LIVING ALLOWANCE REVIEW – OLIVE VIEW
MEDICAL CENTER**

On June 27, 2006, you instructed the Director of Health Services, with the assistance of the Director of the Internal Services Department and County Counsel, to determine how Pedus Building Services (Pedus) used the funds it received under the Cost of Living Allowance (COLA) provisions of its Olive View Medical Center (OVMC) contract, and seek reimbursement to the extent Pedus is unable to document the use of these funds.

Scope/Methodology

The Department's Audit and Compliance Division reviewed the Department of Health Services (DHS) reimbursement reports and Pedus expenditure reports for the period following the approved COLA, which was in effect from July 2001 through August 2004. In addition, the Audit and Compliance Division interviewed DHS and Pedus staff and consulted with County Counsel and ISD.

Background

The Department contracted with Pedus to provide housekeeping services at OVMC through Contract #H203066 from January 1, 1994 through December 31, 1998. Subsequent amendments extended the term through August 31, 2004, when a new contract was awarded to Pedus effective September 1, 2004 following the completion of a Request for Proposals (RFP) process. The amendments extended the term to allow the Department additional time to implement the living wage program and develop and release the RFP. Amendment No. 7, effective July 1, 2001, included a 2.9% COLA in the total estimated contract cost, resulting in an increase to Pedus of \$9,027 per month.

Findings

Pursuant to Board Policy No. 5.070, a COLA is defined as "any contract price increase during the term of the contract that is not a cost included in the initially negotiated contract price, and is not for an increased service level or workload. A COLA reflects changes in the cost of doing business based on inflation." County Counsel advised that a COLA is a representation by the Contractor of a need due to an actual increase in the Contractor's cost of doing business. County Counsel

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indicated that in requesting the COLA, Pedus expressed a need due to increased costs. In response to our request, Pedus provided reports of its contract related expenditures for January 2000 through June 2006, which reflected an increase in its expenditures by approximately 9% in fiscal year (FY) 2001-02, 14% in FY 2002-03, and 18% in FY 2003-04. However, based on Audit and Compliance Division's review, the actual expenditures were less than the annual contract budget amount prior to the COLA increase by approximately 5.0% in FY 01-02 and 0.3% in FY 02-03.

Exhibit B of the Agreement regarding Billing and Payment states the contract year budget (annual fixed reimbursement amount) shall be adjusted for inflation at the end of each contract year for the following contract year by the lesser of the average salary percentage movement granted County employees or the Consumer Price Index. The COLA was applied to the total budget. Had the COLA been applied based on the actual costs rather than the budgeted costs, since Pedus' actual expenditures were less than the initially approved contract budget, it would have resulted in a lower overall COLA adjustment. However, County Counsel concurred that since the Agreement did not specify the methodology by which to calculate the amount of the COLA, and the reimbursement is based on an annual fixed reimbursement amount, the Agreement does not support requiring Pedus to reimburse the County for the difference. In order to ensure COLAs are appropriately applied in the future, the Department should review the Contractor's actual expenditures and documentation to validate an increase in the cost of doing business.

Actions Being Taken

The Agreement with Pedus effective September 1, 2004 included the most recent contract COLA language in accordance with Board Policy No. 5.070 to read, "The contract (hourly, daily, monthly, etc.) amount may be adjusted annually based on the increase or decrease in the...CPI..." The Department will work with County Counsel to ensure the appropriate cost categories are considered when determining the actual COLA amount to be applied based on the County's established policies. A contract provision will be developed to specifically address the issues identified in this review, as well as the language recommended by the Chief Administrative Officer and approved by your Board on October 17, 2006 to exclude labor costs from the COLA calculation when not warranted.

If you have any questions or need additional information, please let me know.

BAC:tg
606:035

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Internal Services Department
Auditor-Controller